California Investment Guide

An Overview of Advantages, Assistance, Taxes and Permits

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California GoED Governor's Office of Economic Development

Business Climate

Through the leadership of Governor Arnold Schwarzenegger, California is lowering the cost of doing business and making it easier to invest and grow and to create jobs.

Governor Schwarzenegger insisted that the 2009/10 budget not deal solely with the state's finances, but that it also include an economic stimulus package for California that helps businesses here weather this difficult economy. The Governor was successful and the budget he signed includes provisions that will bring advantages throughout the state.

A quick review of key initiatives and actions make it clear that California has entered a new era for business investment and job creation:

- The Legislature passed the Governor's comprehensive workers' compensation reform bill (SB 899), reducing employer costs by billions of dollars.
- The Governor directed the state Public Utilities Commission (PUC) to implement measures to accelerate power production.
- Governor Schwarzenegger initiated and supported Proposition 71, the stem cell research initiative. It established $3 Billion in obligation bonds to finance up to $350 million a year for research and development of stem cells.
- The Governor and Legislature reformed employer litigation and Californians overwhelmingly approved lawsuit limitations.
- The Governor established the Million Solar Roofs Plan which helps residential and commercial utility users to install and operate solar panels on their property.
- The Governor has initiated his Strategic Growth Plan that makes major improvements to the State's infrastructure, thus reducing congestion and air pollution.
- Public-Private Partnerships and Design-Build Authority will save businesses time and money. By tapping into private money for needed transportation projects will mean more jobs created more quickly and needed infrastructure built at a savings to the taxpayer. This budget includes unlimited P3 for state transportation projects and 10 statewide Public-Private Partnerships allocated to Local Redevelopment Agencies through the Public Works Board.
- Streamlining CEQA permitting will generate jobs and economic activity more quickly will accelerate tens of thousands of jobs-in-waiting into 2009-10 year by speeding up construction projects. For surplus state property and for $1.4 billion in transportation projects through 2010, a California Environmental Quality exemption and permitting process streamlining to pump money into the economy faster.
- Governor Schwarzenegger signed AB 32, California's landmark bill that establishes a first-in-the-world comprehensive program of regulatory and market mechanisms to achieve real, quantifiable, cost-effective reductions of greenhouse gases.
- Within negotiations, the Governor ensured that positive changes for businesses made in last year's budget were carried over into this year's. Effective January 2010, businesses will be able to share business tax credits among a related group of affiliate or subsidiary companies (known as unitary utilization). This allowance provides increased flexibility to companies to allocate tax credits within their family of companies.

California's Advantages

California offers unparalleled value to companies seeking the optimal business location. Our critical mass of business services, intellectual capital, financial acumen, transportation systems and market access enhance the corporate mission and make California the most efficient place to do business in the world. Why invest or create jobs in California? Because the long-term outlook for our economy and business climate is as sunny as the legendary climate.

Innovation and Intellectual Capital

California leads the nation in trends and innovation. New ideas are a way of life here. Californians have a strong need to express themselves and a long history of free thinkers conceiving the inconceivable. California supports creativity with a superior educational system and job training that produces an unrivaled, highly skilled labor force.

Over 2.3 million students are enrolled in 330 colleges and universities. Over 266,000 college graduates every year. California possesses the nation's highest concentration of engineers, scientists, mathematicians and skilled technicians.

Seven of the top 20 engineering schools are in California. 52 California companies are ranked among *Fortune Magazine's* prestigious FORTUNE 500 list of America's largest corporations ranked within the states. California is a major center for design of automobiles, furniture, apparel, software, electronics, telecommunications services, computers and semiconductors.

California boasts nearly 621 members of the National Academy of Sciences and 111 Nobel Laureates.

Nation's Leading High-Tech State

California's culture embraced technology as part of its founding DNA. Technological innovation powers the California economy. We're home to nearly 1 million high-tech workers, twice the number of the next-closest state, and one-sixth of *all* U.S. high-tech workers.

High-tech exports totaled $48 billion, ranked first nationwide, and high-tech goods represent nearly 36% of the state's annual exports.

California leads the nation in several strategic high-tech industry segments, comprising between 20-60% of U.S. market share in electronic components, commercial aerospace, medical instruments, biotechnology and transportation.

California has been the #1 manufacturing state since 1977. In many ways, California's technology fortune has driven the nation's economic future.

California leads the nation with 4 of "The top-ten rankings for the preeminent high-tech metros in North America", a study conducted by the Milken Institute.

In addition to leading the country in High-Tech, California also leads in 'Green Tech' and 'Green Collar Jobs'. California is home to many aspects of renewable energies. Solar, wind, and bio diesel and just a few of the technologies that are being researched, developed, and manufactured in the Golden State.

California also topped the 2009 American City Business Journal's list of "America's Top Tech Centers".

Research, Capital and Access to Financial Resources

California leads the nation in research and development (R&D) and benefits from receiving almost half of the nation's venture capital investment. In 2008, California companies received more than $14.4 billion or 52 percent of all venture capital (VC) dollars invested in the U.S.   Top sectors receiving VC funding are software, telecommunications, biotechnology, medical devices and semiconductors.

California is home to more than 2,700 companies and more than 100 universities and private non-profit research organizations that are engaged in biomedical R&D and manufacturing. The state's biomedical industry ranked either number one or in the top five in every section in the 2008 *Business Facilities* Rankings Report. Among the state's high-tech industries, only computer programming employs more workers than the biomedical industry.

Public biomedical companies that are doing business in California invested an estimated $27 billion in research and development of new products for unmet medical needs in 2006. The typical California biomedical company committed 44% of its cash to R&D expenditures.

California ranks first in nanotechnology companies, holders of over 200 patents. More research and VC funding for this emerging industry is invested here than anywhere else. The Silicon Valley has established a Blue Ribbon Task Force on Nanotechnology. The National Science Foundation predicts industry revenue will reach $1 trillion by 2015.

Research and Development expenditures at universities and colleges totaled $6.49 billion in 2006. While Industrial R&D exceeded $50.6 billion, ranked first in the nation.

California offers a 15% R&D tax credit for in-house research and 24% for contract research, the highest in the nation.

Eighth-Largest Market in the World

California has the largest, most robust and most resilient economy in the United States. The Golden State produced $1.81 trillion in goods and services in 2007, a 5% increase over 2006. Our economy represents over 13% of United States gross domestic product.

Our population exceeded 36.4 million (August 2007) is growing dramatically in size and diversity. It represents 12% of U.S. population, one out of every nine persons.

California is the number on state for attracting foreign direct investment. The state has the larges consumer markets for high technology, biotechnology, food and agriculture, apparel, and entertainment, and is a bell-weather for the nation's economy.

Currently, only three minority markets at the state level exceed $100 billion in buying power annually, and two of them are in California. Hispanic buying power comprises $228 billion in California and California's Asian consumer market totals $150 billion.

Pacific Gateway

California is globally connected with world-class infrastructure. More than 15,000 miles of highways and freeways to carry billions of tons of freight per year. Twelve cargo airports carry more than 3 million tons of freight per year. California leads the nation with 11 cargo airports and 11 cargo seaports. The ports of Los Angeles, Long Beach, and Oakland are among the busiest in the country.

California has 18 foreign trade zones (FTZ) which allow tenants to delay or forgo import and export duties on goods and raw materials until they enter U.S. commerce. If the goods are warehoused in an FTZ, then exported to other countries, no duties are paid at all. In addition, California also has 42 Enterprise Zones (EZ) and 8 Local Agency Military Base Recovery Areas (LAMBRA).

Twenty-nine freight railroads in California operate over nearly 6,000 miles to form an integral part of the global transportation network. Mixed freight, food, glass and stone, chemicals and primary metal products make up the bulk of the originated and terminated tonnage carried by the extensive railroad network.

California is a global export leader with over $134 billion in sales of goods and services. International-related commerce accounts for large percentage of the state's economy. Exports from California accounted for 12 percent of total U.S. exports. California exported to 222 foreign markets. California's top trading partners are Mexico, Canada, Japan, China and South Korea. California trade and exports translate into high-paying jobs for over one million Californians.

California Lifestyle

Californians lead an enviable that for the last five years ranks #1 in the Harris Poll asking respondents to name the #1 most desirable state in which to live. Residents here have the highest life expectancy in the country and receive the best health care. Our population has a median age of only 34.4 years. Californians enjoy natural beauty right in their backyards, featuring towering forests, snow-capped mountains, beautiful beaches and serene deserts.

The Golden State is home to over 1,000 golf courses, 45 snow resorts, 21 professional sports teams, 31 national parks, 280 state parks, 134 wilderness areas, 1,100 miles of coastline, and over 900 wineries.

California leads the nation in tourism with $97.2 billion in revenues in 2008 and having the most towns on *CNN Money Magazine's* list of 'Best Places to Live'.

Investment Assistance

California Business Investment Services (CalBIS) assists companies and investors interested in employing Californians. Major state-level incentives are described in this section. Note that many incentives are site driven and/or negotiated with local government on a case-by-case basis or under an existing local economic development policy. As needed, “A–Teams” comprised of state and local officials are assembled to bring public and private resources together to assist investors or companies interested in the Golden State.

Targeted Tax Credits

Economic Development Areas

The state offers four types of Economic Development Areas (EDAs): Enterprise Zones (EZ); Local Agency Military Base Recovery Areas (LAMBRA); Manufacturing Enhancement Areas (MEA); and, Targeted Tax Areas (TTA) in urban and rural areas.

Enterprise Zones. Businesses located within the boundaries of an Enterprise Zone are eligible for tax credits.

The first major Enterprise Zone tax credit is equivalent to the sales and use tax paid on the first $1,000,000 Personal Income Tax or $20,000,000 (Corporate Tax Payers of qualified new or used manufacturing equipment purchased each year. Qualified machinery is machinery or parts used to:

- Manufacture, process, fabricate, or otherwise assemble a product.
- Produce renewable energy resources.
- Control air or water pollution.

The definition of “qualified property” has been expanded to include data processing and communications equipment including, but not limited to, computers, CAD systems, copy machines, telephones systems and faxes. Equipment must be purchased in California unless equipment of comparable price and quality cannot be found in California.

The second major Enterprise Zone benefit takes the form of a credit equal to a percentage of the wages paid to a qualified employee. The credit is based on the lesser of the actual hourly wage or 150 percent of the state-established minimum wage.

The credit is provided over a five-year period with 50 percent of the wages creditable in the first year of employment, 40 percent the second year, 30 percent the third year, 20 percent the fourth year, and 10 percent the fifth year. If the employee stays with the company for the entire 5-year period, the company receives credits totaling nearly $37,440 per qualified employee. If the employee is terminated prior to 270 days of employment, the credit is recaptured.

Other Enterprise Zone benefits that may apply in certain cases include:

- A 15-year carryover of up to 100 percent of net operating losses.
- Expensing of certain depreciable property.
- Lender interest income from loan to zone businesses is deductible.

http://www.hcd.ca.gov/fa/cdbg/ez

LAMBRAs, MEAs, and TTAs are detailed in the above link. LAMBRA zones are a companion to Enterprise Zones. The most notable differences in incentives include enhanced equipment purchase eligibility under the sales and use tax credit; an annual wage limitation of $2 million per year under the hiring tax credit; and redefinition of qualified employees to include displaced military or civilian employees of the former base.

http://www.hcd.ca.gov/fa/cdbg/ez/lambra/

Research and Development Tax Credit

Designed to encourage businesses to increase their basic research and development activities in California, the research and development tax credit allows companies to receive a 15 percent credit against their bank and corporation tax liability for qualified in-house research expenses, and a 24 percent credit for basic research payments to outside organizations.

Qualified research expenses generally include wages, supplies and contract research costs. To qualify, a taxpayer's research must be conducted within California and include basic or applied research of scientific inquiry, original investigation for the advancement of scientific or engineering knowledge or improved function of a business component.

http://www.ftb.ca.gov/forms/misc/1082.pdf

Net Operating Loss Carryover

California tax law allows businesses that experience a loss for the year to carry this loss forward to the next year in order to offset income in the following years.

New businesses can carry over 100 percent of their losses for 20 years if the loss is in their first year of operation.

http://www.ftb.ca.gov/forms/misc/1083.pdf

Empowerment Zones

The federal government has designated sections of several California communities as Renewal Communities, Empowerment Zones and Enterprise Communities (RC, EZs and ECs). The cities of Fresno, Los Angeles, Santa Ana, San Diego, San Francisco, Orange Cove, Parlier, and the counties of Imperial and Riverside have designated RCs, EZs or ECs. Benefits to businesses locating or expanding in these areas include:

- Employer wage credits of 20 percent for the first $15,000 in wages paid to an individual who resides in the EZ up to $3,000.
- Section 179 deduction allowing businesses to deduct all or part of the cost of eligible property (machinery, furniture, equipment, computers) up to an additional $20,000.
- Availability of low interest rate tax-exempt private activity bonds to finance industrial projects typically between $1-3 million (some zones have substantially larger limits), often with fewer restrictions than those normally associated with tax-exempt bond financing.
- Possible city business tax exemption.
- Postponement of capital gains on the sale of EZ/EC assets.

http://www.hud.gov/offices/cpd/economicdevelopment/programs/rc/tour/ca/

Foreign Trade Zones

California's Foreign Trade Zones (FTZ) are located in San Francisco, San Jose, Long Beach, Oakland, West Sacramento, San Diego, Palmdale, Los Angeles, Port Hueneme, Merced/Madera/Fresno counties, Stockton, Palm Springs, Santa Maria, Victorville, Eureka and Imperial, Butte and Riverside Counties.

FTZs are secured areas legally outside of U.S. customs territory usually located in or near customs points of entry. Foreign trade zones allow entry of foreign or domestic merchandise without formal customs entry or government excise taxes.

Merchandise entering a zone may be stored, tested, sampled, relabeled, repackaged, displayed, repaired, manipulated, mixed, cleaned, assembled, manufactured, salvaged, destroyed or processed. Products exported from or imported into foreign trade zones are excluded from customs duty and excise taxes until the time of transfer from the foreign trade zone.

http://www.ia.ita.doc.gov/ftzpage.

New Markets Tax Credits

The New Markets Tax Credit (NMTC) Program permits taxpayers to receive a credit against federal income taxes for qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. The credit provided to the investor totals 39% of the cost of the investment and is claimed over a seven-year period. In each of the first three years, the investor receives a credit equal to 5 percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is 6 percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period. NMTCs will be allocated annually by the Fund to CDEs under a competitive application process. As of 2007, allocates in California include Border Communities Capital Company, LLC of Solana Beach; Clearinghouse CDFI of Lake Forest; Impact Community Capital CDE, LLC of San Francisco; KHC New Markets CDE, LLC Series A of Carlsbad; Lenders for Community Development of San Jose; and WNC National Community Development Advisors, LLC of Costa Mesa.

http://www.cdfifund.gov/index.asp

New Hire Tax Credit

A temporary tax incentive will target small businesses that create new California jobs in the coming two years. This credit is intended to complement existing job creation tax credits the state offers to employers in geographically targeted Enterprise and other zones:

- In 2009 and 2010, California employers that began the year with 20 or fewer employees will be able to claim a $3,000 income tax credit for each new, full-time employee they hire.
- Estimated to save small businesses $330 million in 2009-10 and help create thousands of jobs.
- Ends the quarter after $400 million in credits have been allocated.

Film and TV Production Tax Credit

Tax incentives will lure television and movie production back to California where it belongs:

- For the next five fiscal years, the California Film Commission will certify and administer a tax credit for new production in the state or production that returns to California from another state. The credit will be equal to 20 percent of expenditures in the state related to the film production, and 25 percent for production returning to the state and independent films. It will be capped at $100 million per year.
- This is about much more than actors and directors – it's a benefit to the small businesses such as make-up artists and caterers who rely on film production for their business.

Home-Buyer Tax Credit

Helps protect jobs by encouraging homebuyers back into the market through a new incentive: a tax credit on the purchase of a new (never been occupied) home. 1.6 million jobs in California rely on building, buying, remodeling, and furnishing homes:

- The Franchise Tax Board has the authority to extend a total of $200 million in tax credits to California homebuyers; $100 million for buyers of new, unoccupied homes and another $100 million for first-time buyers of existing homes.
- The purchase must be made between May 1, 2010 and December 31, 2010. The tax credit will be available to buyers on a first-come, first-served basis and is applied in equal amounts over a period of three taxable years. To qualify, the buyer must not be a dependant and must purchase a home that does not belong to a relative.

Employee Training

Job Referral and Placement

California's Employment Development Department (EDD) works with businesses to access the state's entire workforce, as well as to coordinate recruitment activities with local community-based job training and placement organizations called "One-Stop Career Centers." EDD, in cooperation with the One-Stop network (http://www.edd.ca.gov/Jobs_and_Training/pubs/osfile.pdf), will help to customize and deliver pre-employment and on-the-job training; recruit, screen, and assess workers for specific skills sets; and assist employers to maximize California Enterprise Zone and federal hiring tax credits.

Also, through its CalJOBS^{SM} system (http://www.caljobs.ca.gov/), EDD's Job Service offers a statewide network that provides an instant link between employers and job seekers anywhere in California. This network provides employers with quick access to the largest available pool of job-ready applicants.

Work Opportunity Tax Credit

The amount of the tax credit varies by target group. The tax credit for target groups A, B, C, D, E, G, and H is 40 percent of qualified first year wages up to $6,000 if the individual is retained for at least 400 hours. If the individual is retained less than 400 hours but at least 120 hours a 25 percent tax credit is available on qualified first year wages up to $6,000.

The exception is target group F (summer youth). The maximum amount of wages to which the tax credit may be applied shall not exceed $3,000.

The tax credit for target group I, long-term family assistance recipient, is 40 percent of first year qualified wages up to $10,000 and 50 percent of second year qualified wages up to $10,000. The individual must be retained at least 180 days or 400 hours. In certain circumstances you may be able to claim either the 40 percent of $6,000 tax credit or the 40 percent of $10,000 tax credit.

http://www.edd.ca.gov/Jobs_and_Training/WOTC_Target_Groups.htm

California Employment Training Panel

A skilled workforce is key to a company's ability to remain competitive. The Employment Training Panel (ETP) assists employer efforts to effectively train workers and maintain skilled workforces capable of responding to changing business and industry needs.

ETP-funded training works because employers make decisions about their own training programs; training investments help companies become more profitable; and, performance-based contracting ensures success.

ETP job training funds are available to all California manufacturing companies, companies that face out-of-state competition and businesses that are expanding or relocating to California from other states or countries.

In addition to the manufacturing industry, and, of course, California's small business employers, the Panel also prioritizes:

* Nanotechnology
* Biotechnology and Life Sciences
* Goods Movement and Transportation Logistics
* Aerospace and Defense
* Advanced Technology Information Services
* Multimedia/Entertainment
* Healthcare
* Construction
* Agriculture
* Renewables

For more information regarding ETP, visit their website at www.etp.ca.gov or e-mail them at edu@etp.ca.gov

Industrial Development Bonds

Financial Assistance

IDB financing may be the most competitive financing option available for the acquisition of manufacturing facilities and equipment. IDBs provide a method for middle market manufacturers to access the private capital markets at tax-exempt rates. The IDB interest rate is significantly lower than bank financing because the interest paid to the investor is exempt from state and federal income tax, resulting in substantial savings to the borrower, depending on the amount financed.

The IDB issuance process can be pursued concurrently with the bank credit approval process. The entire process can be easily completed within 90 days and from the borrower's standpoint should not be much different than a conventional financing. The most frequent source of delay is, in fact, the letter of credit bank's credit approval process.

The financing structure is fairly straightforward. A governmental entity will issue bonds and loan the proceeds to the company. The company's obligation to repay the loan is secured by a direct-pay Letter of Credit from a bank rated 'A' or better. The interest rate on the bonds is adjustable and is reset weekly by the underwriter in its capacity as remarketing agent.

IDBs can be issued by the California Infrastructure and Economic Development Bank (I-Bank), cities, counties, and joint powers authorities. Industrial development bonds do not constitute an obligation of either the state or the local government issuer.

The issuer's staff and the borrower's finance team of experienced professionals assist the business through each stage of the process. The finance team usually comprises a bond counsel, financial advisor (who assists in packaging and structuring the financing), letter of credit bank, underwriter, and trustee.

IDB Guidelines:

- $10 million: maximum amount that can be borrowed as a tax-exempt industrial development bond.
- $20 million: limit on the company's capital expenditures for the three years before and after the bond issuance (intended to target the program to small and medium-sized manufacturers).
- Low interest rate: 20-30% below conventional financing rates.
- Primary business activity: Manufacturing, processing, or fabrication. Examples include but aren't limited to: meat processing, vegetable dehydration, machine fabrication, car/truck parts manufacturing, wine-making, and lithographers. Distribution is not an eligible use.
- Primary use of bond funds: acquisition, construction, rehabilitation and equipping.
- Comprehensive funding: the funds can be used for construction and/or takeout to finance land, buildings and equipment.
- No prepayment penalty.
- Repayment: If the company qualifies for a conventional bank loan, it should be able to qualify for a bank Letter of Credit.
- Federal and state requirements: because the bond financing provides a 'benefit' to business, borrowers must meet certain public benefit criteria as well as general eligibility requirements.

The project financed by the bonds must meet certain public benefit criteria established by the California Debt Limit Allocation Committee (CDLAC) located in the California's Treasurer's Office, which include, among other things, the creation or retention of jobs.

The IDB financing process can generally be completed within 150 days. The conduit issuer's staff and a financing team, which typically consists of an underwriter, bond counsel and financial advisor, will assist the applicant through each stage of the process.

http://www.ibank.ca.gov

http://www.treasurer.ca.gov

California Alternative Energy & Advanced Transportation Authority (CAEATFA)

Sales & Use Tax Exemptions for Clean Tech Manufacturing

California leads the world in environmental technology as the home to 10,209 clean-tech companies and home base to the innovative minds and year-round sunshine that power the clean technology industry. SB 71 will allow California to maintain this competitive edge by expanding the range of projects which may be approved for a sales tax exemption to include all clean-tech manufacturers.

Previously, CAEATFA could provide a sales tax exemption for the purchase of new manufacturing equipment for zero-emission vehicles; under SB 71 they will now be able to provide an exemption for all clean-tech manufacturers.

The CAEATFA Board has directed authority staff to explore proposals for providing sales and use tax exemptions for the purchase of ZEV manufacturing equipment. The goal of this new ZEV program is to create a strong new ZEV industry within California that reduces green house gas emissions and creates new long-term high value-added jobs.

This exemption is created through a sales-lease-back approach where : CAEATFA purchases specified equipment (tangible personal property, not real property) on behalf of company X. CAEATFA finances this purchase through a bond or loan. Company X then leases the equipment from CAEATFA, with the lease payments paying for the bond or loan. As envisioned, the lease would stay in existence only from the time of the equipment purchase until the equipment is placed in use. By statute, CAEATFA does not have to pay sales tax on the equipment it purchases. The Board of Equalization (“BOE”) oversees state sales and use tax issues and would be consulted in the process.

http://www.treasurer.ca.gov/caeatfa/

Pollution Control Financing

The CPCFA provides tax-exempt bond financing for pollution control projects. Their Tax-Exempt Bond Financing Program gives California businesses help with acquisition or construction of qualified pollution control, waste disposal, or waste recovery facilities, and the acquisition and installation of new equipment.

They also offer a Sustainable Communities Grant and Loan Program that assists communities implementing "smart growth strategies," and the CalReUSE Program that offers low-interest, forgivable loans to assist public and private partners in redeveloping contaminated "brownfields." The California Capital Access Program (CalCAP) helps small-business borrowers obtain loans.

http://www.treasurer.ca.gov/cpcfa/

Small Business Loan Guarantee

California Small Business Loan Guarantee Program:
The Small Business Loan Guarantee Program allows a business to not only acquire a loan it could not otherwise obtain, but to establish a favorable credit history with a lender so that the business may obtain future financing on its own.

Eligible Applicants: Any small business as defined by the U. S. Small Business Administration (typically businesses that employ one hundred people or less).

Eligible Uses: Proceeds must be used primarily in California and for any standard business purpose beneficial to the applicant's business, such as expansion into new facilities or purchase of new equipment.

Guarantee Amount: Guarantees can cover up to 90% of the loan amount, with the guaranteed portion of the loan not exceeding $500,000. The guaranteed percentage varies and subject to negotiation between the FDC and the lender.

Loan Information:

The term of the loan guarantee may extend up to seven years:

- Interest rates are negotiated between the borrower and the lender. The FDC may charge a guarantee fee of up to 2% for guarantee amounts up to $150,000, and 3% for guarantee amounts over $150,000, plus a documentation fee of $250.
- Processing time takes three to five weeks, depending on how quickly the applicant provides the necessary information and documentation, and on the lender's responsiveness.
- Collateral is generally required, but each transaction is tailored to meet the borrower's financial situation.

http://www.calbusiness.ca.gov/cedpgybfasblgp.asp

Market Development and Expansion Grant Program

The Department of Conservation provides up to $20 million annually to increase beverage container recycling in California and to improve processing and manufacturing with recycled aluminum, glass and plastic. It encourages projects that advance environmentally and economically sustainable containers, packaging and other products. The program supports research and development of new technologies and helps reduce greenhouse gas emissions by strengthening “green” industries in the state. Specific objectives include:

- Creating market opportunities for new sustainable products or packaging.
- Expanding market-related activities for existing recycled-content products.
- Improving the quality and supply of beverage container material feedstock for use in manufacturing sustainable products or packaging.
- Creating market opportunities for sustainable beverage packaging.

For more information, visit the Department of Conservation’s website at: http://www.conservation.ca.gov/dor/grants/Pages/rmdeg.aspx

Beverage Container Recycling Grant Program

The Department of Conservation provides funding annually in the form of grants for beverage container recycling and litter reduction programs. The Department typically seeks projects that provide convenient beverage container recycling opportunities in California, however, the focus may change with each new solicitation.

Grant proposals are evaluated on criteria set forth in each year's Grant Solicitation. There are no restrictions on who can apply for the grants. For more information, visit the Department of Conservation's website at: http://www.conservation.ca.gov/dor/grants/Pages/bcrg.aspx or call 1-800-RECYCLE.

Beverage Container Recycling Infrastructure Loan Guarantee Program

The Department of Conservation provides continuous funding in the form of loan guarantees for up to $10 million for capital expenditures for new infrastructure that would add recycling capacity, re-use and/or remanufacture beverage container materials into new products. Uses: equipment costs, building and facilities, rent and utilities, travel, contractual services, salaries, and benefits, other operating and non-operating costs.

Private companies, non-governmental organizations, governmental agencies, manufacturers and trade associations are eligible to apply. For more information, visit the Department of Conservation's website at:

http://www.conservation.ca.gov/dor/Notices/Documents/LGPNotice081707.pdf

Recycling Market Development Zone Revolving Loan Program

The Recycling Market Development Zone (RMDZ) Revolving Loan Program makes capital available for California manufacturers located in RMDZs. The program provides direct loans to eligible businesses that manufacture recycled raw materials, produce new recycled products, or that reduce waste from the manufacture of a product. These loans promote market development for post consumer and secondary waste materials and divert waste from non-hazardous California landfills. Funds may be used to acquire equipment, make leasehold improvements, purchase recycled raw materials and inventory, or acquire real property. Applicants may borrow a maximum of 75% of the cost of a project or $2 million. Terms are generally 10 years and low interest rates are fixed.

http://www.ciwmb.ca.gov/rmdz/loans/

SBA 504 Loans

SBA (Small Business Administration) 504 loans are marketed, processed, closed and serviced by Certified Development Corporations (CDC). Through the SBA 504 Program, CDCs provide up to 90 percent of fixed-asset financing costs. The second mortgage, long-term, fixed-rate financing nature of the program allows banks to participate in business expansion by reducing risk exposure. The benefit to the borrower is a lower down payment requirement (10 percent) and a longer-term, fixed-rate loan, which translates into reduced monthly payments.

The maximum SBA debenture is $1,500,000 when meeting the job creation criteria or a community development goal. Generally, a business must create or retain one job for every $50,000 provided by the SBA except for "Small Manufacturers" which have a $100,000 job creation or retention goal.

Individual job goals can be somewhat flexible if the CDC's overall portfolio meets the requirements. At that point, community impact and public policy goals can be mitigating factors. Eligible 504 loan uses include the purchase of land, existing buildings, new construction, and the acquisition of machinery and equipment with a 10-year useful life. The private sector participant finances 50 percent of the project cost and takes a first lien on assets pledged as collateral.

The SBA takes a second lien on assets and finances up to 40 percent of the project cost, up to $1 million in some cases. Borrowers inject 10 percent in the form of cash or equity in real estate. For more information on SBA 504 loans, call the California Statewide Certified Development Corporation toll free at (800) 348-6258.

http://www.sba.gov/services/financialassistance/index.html

USDA Rural Development

The U.S. Department of Agriculture sponsors “Business & Industry” guaranteed loans in rural communities. USDA guarantees up to 80% on loans from $750,000 to $5 million and up to 70% on loans up to $10 million. Rates are fixed or variable and negotiated between lender and business. Terms are typically seven years for working capital, 15 years on equipment and 30 years on real estate.

Lenders negotiate their own fees and the USDA charges 2% of the guaranteed amount as a one-time fee. Most types of businesses qualify but the project must be in a rural area beyond the urbanized periphery surrounding a city of 50,000 or more. Communities that have grown beyond 50,000 since the 2000 census may still be eligible.

http://www.rurdev.usda.gov/ca/index.htm

Local Incentive Options

Local Revolving Loan Funds

Enterprising communities throughout California have recognized that Revolving Loan Funds (RLF) are important economic development tools. The United States Economic Development Administration, Department of Agriculture and Housing and Urban Development's Community Development Block Grant Program typically capitalize RLFs. Their proceeds often provide critical capital to deserving small businesses, which in turn, provide needed jobs in urban and rural areas throughout California.

Certain businesses may be targeted for assistance and most often the loan will be provided as part of an overall package in the form of gap financing.

RLFs are guided by policies that outline loan or loan guarantee sizes, uses, rates, terms, special conditions and participation levels.

The goals, objectives and priorities of the program are weighed against the portfolio's requirements and loans are approved or denied by a Loan Administration Board. Conventional lending is required, with the RLF taking a second or third mortgage position. Personal and/or corporate guarantees are required.

Contact your local city or county for more information.

Redevelopment Area

Various forms of financial assistance are available through local redevelopment agencies in California. Business may benefit through direct financial assistance, land assemblage, bond issuance and/or construction of public improvements. Redevelopment is funded through incremental property tax revenue increases that are a direct result of private investment and increased property values.

Assistance may be in the form of fee reductions, infrastructure improvements, land cost reductions, mortgage interest reductions, rehabilitation/demolition/clearance of existing structures, and utility tax rebates. Legislation enables the redevelopment agency to provide financing for manufacturing projects under certain conditions. Capital financing or long-term operating leases may also be permitted.

Contact your local redevelopment agency or the California Department of Housing and Community Development at http://www.hcd.ca.gov/contact.html

State Taxes

Corporation Income Tax

The Franchise Tax Board http://www.ftb.ca.gov/ administers an 8.84 percent tax (known as the "Bank and Corporation Franchise Tax") on net corporate income.

California S Corporations are subject to a tax rate of 1.5 percent on net income.

California uses the unitary method to determine the portion of income reasonably attributable to this state and thus subject to the Bank and Corporation Franchise Tax. Corporations deriving income from sources both within and outside the state are required to report the income of all related business units in a combined report. The combined income derived from all business activity is apportioned to each state or nation using an apportionment formula.

The percentage of property, payroll, and sales attributed to California, versus worldwide operations, is calculated. They are then added together, with double weight given to sales, and divided by four.

This calculation determines the percentage of the unitary or combined income subject to California's bank and corporation franchise tax.

Apportionment Formula = percentage of unitary income subject to California's corporate tax.

California Payroll (percent) + California Property (percent) + California Sales (percent) + California Sales (percent)

Multinational corporations may make a "Water's Edge" election whereby they exclude most income derived from foreign operations from the combined report. Foreign business units or corporations that have an apportionment percentage in excess of 20 percent must be included in the combined report. The election lasts for seven years, but is continuously renewed unless a notice of non-renewal is filed by the business.

- Effective January 1, 2011 California Businesses will have to option to select a Single Sales Factor. This allows companies to choose to weigh only sales made in the state – not property or payroll – to determine corporate taxes owed.

Sales and Use Tax

Administered by the Board of Equalization, the State of California imposes a sales and use tax that is 8.25 percent. In addition local counties and cities can add a percentage to the State tax which is currently averaging 1.00%. The sales tax applies to the gross receipts of retailers from the sale of tangible personal property which is not specifically exempt. Specific exemptions include most food for home consumption and prescription medicine. Sales tax is imposed at the point of sale. It is the responsibility of the retailer, but paid by the purchaser.

Use tax is paid on items purchased for the intent of use in California. Intent of use is defined as used in California within 90 days of purchase. The tax is self-reported and paid at the rate applicable in the jurisdiction in which the item will be used less the tax paid in another state.

Note: Construction materials are not exempt from sales tax. Construction labor is not taxed.

http://www.boe.ca.gov/

http://www.boe.ca.gov/cgi-bin/rates.cgi

Property Taxes

County government levies and administers property taxes. The State Board of Equalization performs an oversight role relative to county assessors' activities. Property tax is levied on 100 percent of assessed valuation. The tax rate is 1 percent plus a component representing bonded indebtedness for the district in which the property is located on the lien date. The average property tax rate in California is 1.1 percent, but varies on a parcel basis.

Real property is appraised upon change of ownership or new construction, and then adjusted annually at the lower of 2 percent or the rate of inflation as measured by the Consumer Price Index. Assessed values on real property may be reduced if the value is higher than the current market value.

Business personal property, including machinery, equipment, and fixtures is taxed at the same rate as real property, but is not subject to any special assessments. Unlike real property, business personal property is reappraised annually. Business owners must file a property statement with the county assessor each year detailing market value.

Finished goods and raw materials are not subject to property tax. Only finished goods held for use are assessed.

http://www.boe.ca.gov/proptaxes/proptax.htm

Unemployment Insurance

All employers are required to pay into the Unemployment Insurance Fund, which is used to pay unemployment benefits. All new employers are required to pay a rate of 3.4 percent on the first $7,000 in wages for up to three years.

There is a maximum of $434 per employee, per year. (Calculated at the highest UI tax rate of 6.2 percent x $7,000)

http://www.edd.ca.gov/Payroll_Taxes/Unemployment_Insurance_Tax.htm

Disability Insurance

Administered by the California Employment Development Department, this is an employee paid tax.

The State Disability Insurance (SDI) withholding rate for 2008 is 1.1%. The taxable wage limit is $90,669 for each employee per calendar year. The maximum to withhold for each employee is $997.35.

http://www.edd.ca.gov/Payroll_Taxes/State_Disability_Insurance_Tax.htm

Workers' Compensation Insurance

California's workers' compensation system is overseen by the Department of Industrial Relations and the Department of Insurance. During 2004, Governor Schwarzenegger signed SB 899 into law. This landmark reform legislation that overhauled the workers' compensation system and required independent medical reviews, established employer-selected doctor networks and imposed uniform standards. As a result, insurance capital has flowed into the state and new insurers have entered the market.

According to the Department of Insurance, base rates have fallen over 35% since January 2004. To learn more about the program please go to:

http://www.insurance.ca.gov/0100-consumers/0060-information-guides/0030-business/

Overview of California Tax System

Tax	Base or Measure	Rate	Administering Agency
Corporation Income or Bank and Corporation Franchise Tax	Combined net income apportioned to California.	8.84 percent	Franchise Tax Board
Sales and Use Tax	Receipts from sales or lease of taxable items.	8.25-10.25 percent	Board of Equalization
Property Tax	100 percent of assessed valuation	Avg. 1.1 percent	Board of Equalization
Personal Income Tax	Taxable personal income.	1.25-10.55 percent	Franchise Tax Board
Unemployment Insurance Tax (aka Payroll Tax)	First $7,000 of wages per employee per year.	1.5 – 6.2 percent	Employment Development Department
Disability Insurance (*employee paid*)	Taxable wage limit for withholding of $90,669.	1.1 percent	Employment Development Department
Finished Goods, Raw Materials, and Inventory Tax	NONE	NONE	NONE
Workers' Compensation Insurance	Per $100 of payroll.	Varies based on job classification, workplace safety record, and insurance carrier.	Department of Insurance, Department of Industrial Relations

Permit Process

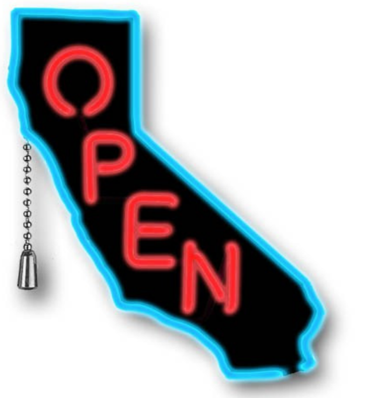
California can readily accommodate expansion and location projects with properly-zoned, infrastructure-rich industrial and commercial sites. Many communities have also adopted state-of-the-art permit streamlining practices, which enable them to efficiently meet a company's project timeline. A number of counties have established Business Environmental Resource Centers that act as one-stop, non-regulatory offices set up to help businesses understand and comply with air quality, hazardous materials/waste, solid waste and water quality regulations. They act as neutral third-party mediators and their services are free and confidential. These communities will assign a project manager to personally guide an applicant through the permit process.

Overview of Permit Procedure

There are four elements generally rec
initiate the permit process. The follo
summary of the steps that a project n
become fully permitted in California.

1. An adequate description of the p
project.
2. A completed application form o
less than four pages.
3. The appropriate filing fee as det
the local, state, or federal permit
authority.
4. California law requires development projects to be reviewed for any potential effects on the environment. Impacts on air and water quality, traffic, housing, and land use are generally considered. If there is a significant effect on resources, then further documentation may be required.

The permit process starts at the local level in the planning department. Local permits called "land use" permits are generally required to ensure that a proposed project or business is located in the appropriate region of the city that has been identified for similar use.



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of an "Initial Study," which checks whether or not the project may have an effect (for example, increased demand) on such factors as water supply (yes, no or maybe). Any "yes" and "maybe" impacts may need to be mitigated, depending on the local environmental and political climate. A significant number of "yes" answers may inspire the lead agency (which is in charge of coordinating all permits), to require an Environmental Impact Report (EIR).

The Permit Streamlining Act places lead agencies on strict timelines in which to issue all necessary permits.